COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2216-01
Bill No.: HB 1005
Subject: Economic Development Department; Revenue Department; Tax Credits
Type: Original
Date: March 30, 2009

Bill Summary: This proposal imposes a sunset on all tax credits and requires all tax credits issued to be redeemed within three years of issuance.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	$0	$0 to $1,500,000	$0 to $1,500,000
Total Estimated Net Effect on General Revenue Fund*	**$0**	**$0 to $1,500,000**	**$0 to $1,500,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

* **The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government*	**$0**	**$0**	**$0**

* **The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning** state the proposal sunsets tax credit programs on December 31, 2011, unless reauthorized by the general assembly. The proposal also requires that all tax credits issued be redeemed with 3 years of issuance. According to DED, the majority of tax credits are redeemed within 3 years of issuance. This proposal therefore should not have any long term impact on general or total state revenues.

Officials from the **Department of Revenue (DOR)** state this legislation adds new provisions to sixty-five sections which require that all tax credits be redeemed within three years of issuance and imposes a sunset on all tax credits which generally provides a termination date of December 31, 2011 unless reauthorized. DOR assumes their Collections and Tax Assistance section would require:

- One Tax Collection Technician I for every additional 15,000 contacts annually on the delinquent tax line;
- One Tax Collection Technician I for every additional 24,000 contacts annually on the non-delinquent tax line; and
- One Revenue Processing Technician for every additional 4,800 contacts annually in the field offices.

DOR assumes the cost of three additional FTE to be roughly $125,000 per year.

DOR states it is assumed that all tax credits may not be fully redeemed within the three year period; therefore, after the three year redemption period, state revenues may increase.

Oversight assumes the volume of calls and inquiries regarding the changes in this proposal would not rise to the level of requiring additional FTE for the Department of Revenue.

Officials from the **Department of Economic Development (DED)** state passage of this bill would significantly impact Missouri's ability to compete with other states for business location, development or expansion because it is not clear what would happen to existing tax credits after the program sunsets. DED states they have not conducted any specific fiscal or economic impact projections on the impact of this legislation.

Officials from the **Department of Social Services (DOS)** state the changes within the proposal should not significantly impact their agency. DOS states while a reduction in tax credits for donations to the Missouri Health Care Access Fund may mean less donations and less funds available to be used for operation costs for eligible health care facilities (i.e. rural health clinics)

ASSUMPTION (continued)

in defined areas of need, it does not change the number of MO HealthNet eligibles or services; therefore, there is no fiscal impact to the MO HealthNet Division.

Officials from the **Office of the State Treasurer** and the **Department of Agriculture** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Department of Elementary and Secondary Education** state a reduction in tax subsidies increases the state's tax revenue and thus the amount of money available for state needs including public schools and all public school students.

Officials from the **Department of Health and Senior Services (DOHSS)** state the changes to Section 135.575 (tax credit for donations to Missouri Health Care Access Fund) may result in a savings of $0 to Unknown - less than $1,000,000 after December 31, 2011 if the credits are not reauthorized.

Also changes to Section 660.055 (Shared Care tax credit) could result in a savings of $0 to an Unknown amount if the tax credits are not reauthorized. There is no cap on this program and the amount of credits redeemed in the past three years has been $157,000 in FY 2006, $157,000 in FY 2007 and $78,360 in FY 2008.

In summary, the DOHSS estimates that beginning in FY 2012, the impact of this legislation would be a savings to General Revenue of $0 to unknown.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state the imposition of a sunset and 3-year redemption period for tax credits in the bill will result in an unknown increase in premium tax collection. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by the provisions of the bill.

Officials from the **Department of Natural Resources (DNR)** state the proposal would prohibit certain tax credits from being issued after December 31, 2011, unless re-authorized by the General Assembly.

ASSUMPTION (continued)

Tax credits issued for certain programs must be redeemed or applied to the taxpayer's tax liability within three years of their issuance. Any amount of tax credits that is not redeemed or is left unapplied after three years would expire and could not be redeemed or applied to a taxpayer's tax liability.

Under current language, the owner can apply the historic structure rehabilitation tax credits three years back and ten years forward until such time as the credits are utilized. This proposal would significantly decrease the utility of the credit and make it more difficult for persons earning the credits to fully utilize them. While larger scale commercial project could sell or transfer the credits, the greatest impact of this reduction would come for smaller scale projects such as homeowners claiming the credit on the rehabilitation they have done on their historic home or on the owners of small businesses such as those found in small town commercial areas. The scale of these projects is small enough that it is impractical to sell or transfer the credits and the tax liability of the owners in a 3 year period may not be great enough to allow them to fully claim the credits that they have earned through their private investment. This proposal would significantly impact the smaller scale investor/developer.

DNR states they would not anticipate a direct fiscal impact from this proposal. For purposes of this fiscal note, DNR assumes that the Departments of Economic Development and Revenue would be better able to estimate the net effect to Missouri.

Officials from the **Department of Labor and Industrial Relations** did not respond to our request for fiscal impact.

Changes to Section 135.750 - Film Tax Credit - reduce the amount of credits that can be issued under this program from $4.5 million per year to $500,000 per year, for all tax years beginning on or after January 1, 2010. In FY 2007, $2.0 million credits were issued and in FY 2008, $1.6 million credits were issued. DED projects $1.675 million and $2.0 million in credits will be issued in FY 2009 and FY 2010 respectively. Therefore, **Oversight** will assume a savings of up to $1.5 million annually ($2.0 million estimated credits in FY 2010 now limited to $500,000). Since this new cap is for all tax years beginning on or after January 1, 2010, Oversight will assume the potential fiscal impact may be realized in FY 2011.

Changes to Section 208.770 - Family Development Account - reduce the amount of credits that can be issued under this program from $4.0 million per year to $100,000 per year, for all tax years beginning on or after January 1, 2010. In FY 2007, $7,731 credits were issued and in FY 2008, $8,999 credits were issued. DED projects $35,000 in credits will be issued in FY 2009 and FY 2010. Therefore, **Oversight** will assume no fiscal impact from reducing the annual cap on

ASSUMPTION (continued)

this program to $100,000.

This proposal sunsets most if not all tax credit programs on December 31, 2011, unless they are reauthorized by an act of the General Assembly. **Oversight** assumes this would result in a large savings to the General Revenue Fund, but not within the scope of the fiscal note. The first fiscal year in which the state could realize an increase in Total State Revenues because of these provisions would be for tax returns filed for calendar year 2012, which are filed in FY 2013 (outside the scope of this note).

This proposal also states that any tax credits that have not been utilized within three years of issuance shall expire. **Oversight** assumes this provision applies to all tax credits to be issued going forward and not to tax credits that have already been issued. Therefore, Oversight assumes these changes will not have an impact within the scope of the fiscal note.

This proposal may increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Savings - DED Section 135.750 Film tax credits limited to $500,000 annually - DED issued $2.0 million credits in FY 2007 and projects issuing $2.0 million credits in FY 2010	$0	$0 to $1,500,000	$0 to $1,500,000
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	**$0**	**$0 to $1,500,000**	**$0 to $1,500,000**

* **The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that receive or purchase tax credits could be fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

Beginning July 1, 2010, this bill reduces the amount of tax credits that can be authorized annually for the Family Development Account Program from $4 million to $100,000; and the total amount of tax credits that can be annually certified for qualified film productions is reduced from $4.5 million to $500,000.

Tax credits issued for certain programs must be redeemed or applied to the taxpayer's tax liability within three years of their issuance. Any amount of tax credits that is not redeemed or is left unapplied after three years will expire and cannot be redeemed or applied to a taxpayer's tax liability. The bill also prohibits certain tax credits from being issued after December 31, 2011, unless re-authorized by the General Assembly. If re-authorized, the tax credits will automatically expire on December 31 six years after the effective date of the re-authorization. These tax credits will terminate on September 1 immediately following the calendar year in which the tax credits expired.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Social Services
Department of Health and Senior Services
Department of Agriculture
Department of Elementary and Secondary Education
Office of the State Treasurer

NOT RESPONDING:
Department of Labor and Industrial Relations

Mickey Wilson

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Director
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